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I-CAN COMMUNIQUÉ

JULY 2022

MONTHLY NEWSLETTER – JULY 2022

Sensex : Down 5.2% Nifty : Down 5.3%	
Best performing sector: Auto (2%)	Worst performing sector: Metals (-12.5%)
Best performing Global index: Shanghai Composite (7.9%)	Worst performing Global index: Seoul Composite (-12.6%)
Indian Rupee: -1.8%	Gold (International): -2.6%

Continuing its attempt to curb a multi decade high inflation, RBI raised the key policy rate by 50 basis points to 4.90 per cent in its June bi-monthly meeting.

Foreign institutional investors (FIIs) pulled out a net amount of Rs50,202.81 crore from equity and Rs1,413.88 crore from bond markets.

GST collections grew 56 per cent year-on-year to Rs1.45 trillion in June, the second highest mop up ever. The collections grew 37 per cent year-on-year in Q1 of FY23.The high growth can be attributed to the low base of Rs92,800 crore last June, which was the outcome of the second wave of Covid-19. June was the fourth month in a row when GST receipts crossed the Rs1.4-trillion mark which Finance Minister Nirmala Sitharaman called as the "rough bottom line" now for GST collections.

India's services sector logged its fastest growth in over 11 years after June month's service activities improved further as per the S&P Global India Services Purchasing Managers' Index (PMI) survey. The seasonally adjusted S&P Global India Services PMI Business Activity Index rose from 58.9 in May to 59.2 in June, its highest mark since April 2011. Whereas India's manufacturing PMI went down from 54.6 in May to 53.9 in June, weakest since last September, as per S&P Global. S&P said in its monthly forecast that while the country's manufacturing sector witnessed growth on account of robust demand, it was marred by the rise of input costs and inflation concerns.

According to Centre for Monitoring Indian Economy, the unemployment rate rose from 7.1% in May to 7.8% in June with rural unemployment rising by 1.4 percentage points to 8% while the unemployment rate in urban India declined by 0.9 percentage points to 7.3%.

India's trade deficit swelled to a record $25.63 billion in June driven by imports of petroleum, coal and gold, and slow exports, raising concerns about a further slide in the rupee and a bigger current account deficit (CAD). India recorded CAD of 1.2 per cent in FY22. It could widen further to 3.3% in FY23 as per Nomura.

India tightened exports of oil and imports of gold in an all-out effort to rein in the rupee that plunged to a fresh record.

The Centre raised import taxes on gold, while increasing levies on exports of gasoline and diesel as it sought to control a fast-widening currency deficit.

Reforms

- The Centre's Department of Pension & Pensioners' Welfare (DOPPW) will collaborate with State Bank of India (SBI) to create an integrated pension portal to enhance ease of living of pensioners. Digital life certificate and face authentication technology would be a game changer for pensioners and banks in the submission of life certificates.

- Finance Minister Nirmala Sitharaman launched a Single Nodal Agency (SNA) dashboard which will provide a platform for ministries/ departments to monitor transfer of funds to states and their utilization. The dashboard depicts releases made to different states by ministries, further releases made by state treasuries to SNA accounts, expenditure reported by the agencies, interest paid by banks to SNA accounts etc. in intelligible, informative and visually appealing graphics. It ensures that allocation of funds to states for the Centrally Sponsored Schemes (CSS) are made in a timely manner and after meeting various stipulations. The SNA forms part of public financial management reform that was initiated in 2021 with regards to the manner in which funds for CSS are released, disbursed and monitored.

- SEBI streamlined the process of providing its approval to the proposed change in control of a portfolio manager. An online application needs to be made to SEBI for prior approval through the SEBI Intermediary Portal. The prior approval granted by SEBI will be valid for a period of six months. In order to enable existing investors to take well informed decision regarding their continuance or otherwise with the changed management, the portfolio manager is required to inform its existing investors about the proposed change prior to effecting the same and give an option to exit without any exit load, within a period of at least 30 calendar days from the date of such communication.

- RBI has informed dozens of fin tech startups that it is barring the practice of loading non-bank prepaid payment instruments (PPIs) for e.g. prepaid cards using credit lines. The RBI's notice which doesn't identify any startup by name, is widely thought to be impacting everyone including buy now, pay later firms that also use a similar mechanic to offer loans to customers.

- RBI has increased the limit of e-mandates on cards for recurring payments from INR 5,000 to INR 15,000. Hence for transactions up to INR 15,000, customers will no longer be required to provide a one- time password (OTP).

PMS/ Mutual Funds – Konsa option sahi hai?

Portfolio Management Services (PMS) - you must be familiar with this term through newsletters. Some may have also invested in this product. However many of you would still be wondering what differentiates a PMS from other professionally managed equity offerings such as mutual funds and if it is a suitable product for your requirement. As per revised SEBI rules, the minimum amount for investing in PMS is Rs.50 lakh. So does it mean that investors who can invest Rs.50 lakh or more should by default prefer PMS over mutual funds? It not necessarily be so. Let us look at some key differentiators between PMS and mutual funds which can help us to determine the suitability of the two products.

There are broadly two types of PMS, namely discretionary and non-discretionary. While investor's consent is required to execute trades under the discretionary option, it is not required under the latter option. PMS is operated by a portfolio manager through Power of Attorney (POA) and stocks are held in name of the investor in his own demat account. The portfolio manager of a PMS is generally a highly experienced professional with proven track record of managing public funds since his good will is a key decisive factor for investors while choosing a PMS. The stock portfolio of a PMS is generally more concentrated than that of a mutual fund scheme and hence is riskier but also likely to deliver better returns under favourable conditions.

Mutual funds are more regulated in terms of concentration of the portfolio. Mutual funds are also more regulated in terms of expense ratio since SEBI has specified maximum expense ratio for different categories of mutual funds while expense ratio of a PMS is decided through bilateral negotiation. There is also a big difference in tax liability in hands of investors under the two products. An investor has to bear tax on realized profits in a PMS that is 15% in case of STCG and 10% in case of LTCG exceeding Rs.1 lakh in a financial year as per the current taxation rules in India. However a mutual fund investor is not liable to pay tax on realized profits of the mutual fund scheme in which he has invested. He will become liable to pay tax only on the realized profits upon sale of his mutual fund units. While mutual funds is one of the most transparent investment products in India and publically publishing information such as risk profiler and stock holdings is mandatory, such details may not be publically published by a PMS.

Thus it can be concluded that mutual funds is a highly regulated product which is relevant not only to retail investors but also to HNIs who have a lower risk appetite and prefer a high level of transparency while making investment decision whereas HNIs with a higher risk appetite should consider investing in PMS along with mutual funds for better returns.

Did you know?

Strengths, at nine letters long, is the longest word in the English language with only one vowel.

Cartoon of the Month

"If dolphins are just as smart as humans, why aren't we investing in underwater shopping malls and teaching them how to use credit cards?"

Good News!

- Global ratings agency Fitch upgraded India's long-term sovereign debt outlook to stable from negative. With this move, the big three ratings agencies namely Fitch, Moody's and S&P, all have a stable outlook on India. "The revision in outlook reflects India's rapid economic recovery and easing financial sector weaknesses despite near-term headwinds from the global commodity price shock. We expect robust growth relative to peers to support credit metrics in line with the current rating," Fitch said.
- The government has managed to keep the fiscal deficit to 6.7 per cent during fiscal year 2021-22 which is 10 bps lower than budget estimate and 20 bps lower than revised estimate. The first instalment of advance tax collection for both corporate and personal income tax has recorded impressive gains as per initial data. While growth in corporate tax was around 46 per cent, personal income tax gains surged over 52 per cent.
- The World Bank has approved loans totaling USD 1.75 billion to fund India's PM Ayushman Bharat scheme and private investment to bolster economic growth.
- The gross non-performing asset (GNPA) ratio of banks has fallen to a six-year low of 5.9 percent in March 2022 from 7.4 percent in March 2021, according to the latest Financial Stability Report (FSR) released by the Reserve Bank of India (RBI) on June 30. Stress tests indicate that the GNPA ratio of commercial banks may further improve from 5.9 percent in March 2022 to 5.3 percent by March 2023 driven by higher-than-expected bank credit growth and a declining trend in the stock of GNPAs, among other factors, the report stated.
- Frauds in banking system involving sums of over Rs100 crore have significantly declined with banks reporting cases worth Rs41000 crore in 2021-22 compared to Rs 1.05 lakh crore in the previous year. In a bid to check frauds, the RBI has been taking several steps including improving efficacy of Early Warning System (EWS) framework, strengthening fraud governance and response system, augmenting data analysis for monitoring of transactions and introduction of dedicated Market Intelligence (MI) Unit for frauds.
- India has achieved the target of supplying 10 per cent ethanol-blended petrol five months ahead of schedule and is aiming to double the blend by 2025-26 in order to cut oil import dependence and address environmental issues. This translates into a forex impact of over Rs 41,500 crore, reduced greenhouse gas (GHG) emissions of 27 lakh tonnes and has also led to the expeditious payment of over Rs 40,600 crore to farmers. This increased blending will expand the use of renewable energy in the world's third-biggest oil importer and help turn the nation's surplus rice and damaged food grains into ethanol.

Top Personal Finance News – May 2022

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2) RBI lifts business restrictions on Master card Click here
3) Contactless payments grew 6x in last 3 years Click here
4) New EPFO subscribers grew 41.6% to 1.7 million in April, 2022. Click here
5) How RBI's rate hike will impact borrowers and investors Click here
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8) Corporate FD rates move higher, some offer 175-300 bps more than banks Click here
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